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Demands for monetary reform dominate the global agenda

by Gail Billington and Dennis Small

Between now and the end of this year, every major gathering of heads of state and economic and finance ministers will be dominated by discussion of reforming the International Monetary Fund-World Bank monetary system. The direction of that discussion is no longer looking for a bigger, better, more elastic bandaid, but recognition that this system is beyond repair. The focus now is building the alliance of nations, bilaterally, regionally, and globally, that can impose this new global arrangement, over the objections of the London and New York-centered financial powers, the principal beneficiaries of continued IMF "globalizing" regimes.

In the last week of October, the rising tension in this fight honed in on the anticipated outcome of Indonesia's discussions with the IMF, which began Oct. 17, following Jakarta's request on Oct. 8. Indonesia, the largest economy in Southeast Asia, and the fourth-largest country in the world, has been brutalized, along with its ASEAN neighbors, in the currency and stock market havoc that has collapsed the rupiah nearly 50% since early July, and which fuelled the blackest Monday in world financial market history.

That same week, Brazil, the largest of the Ibero-American economies, followed by Argentina and Mexico, was hit by the marauding speculation that has savaged Southeast Asia since mid-May.

Outside the IMF?

On Oct. 31, the IMF's "Mr. Wizard," Managing Director Michel Camdessus, held a press conference to announce initial agreement with Indonesia, including a series of financial and banking reform measures and other "conditionalities." In think-tanks, editors' offices, and financial and bankers' boardrooms around the world, a great hissing sound could be heard, the sound of a universal sigh of relief that, at the 11th hour, it appeared that Indonesia had stayed within the fold of prevailing institutional opinion, and, for the moment, sidelined efforts to organize financial support "outside" the IMF.

But, those same circles may be sucking in their breath again, soon enough. In advance of the Camdessus press conference, leaks by senior U.S. officials were given to the *New York Times* and *Washington Post:* The United States will participate in the stabilization fund for Indonesia, as it did not do directly in the $17.2 billion Thailand fund, through the Treasury Department's Exchange Stabilization Fund, which will *not* require Congressional approval.

According to these leaks, the U.S. strategy in the case of Indonesia was worked out by Treasury Secretary Robert Rubin and his deputy, Lawrence Summers. The possible $3 billion U.S. tranche is seen as a "second line of defense" to boost Indonesia's foreign reserves, and would be dispensed only if, and when, needed.

Leading up to these developments, high anxiety was setting in as, first, Singapore Prime Minister Goh Chok Tong, followed by Malaysian Deputy Prime Minister and Finance Minister Anwar Ibrahim, travelled to Jakarta for talks with President Suharto and government officials, the upshot of which were announcements that Singapore would make available perhaps $10 billion in financial support to Indonesia, in two tranches, while Malaysia pledged $1 billion, all, on initial report, outside the framework of talks with the IMF.

This anxiety crescendoed on the announcement, Oct. 30, that Japanese Deputy Finance Minister Eisuke Sakakibara would arrive in Jakarta on Oct. 31, and then proceed to Washington, D.C. to meet with U.S. Treasury Department officials on the $100 billion Asian Monetary Fund, which Japan proposed during the September meeting of the IMF in Hongkong, where it won endorsement from the Asian countries, including China, and was received positively by Secretary Rubin.

A Japanese Ministry of Finance official said, "Ever since

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the Thai crisis, we have been saying that a facility to supplement the [IMF] was necessary among Asian nations. . . . The United States is very keen to be involved in the [AMF] issue regardless of whether it makes a financial contribution. It's wrong to portray them as being passive." Sakakibara's predecessor added in a televised interview, "In view of the large magnitude of private capital flows nowadays, the IMF quota is not sufficient to support the currency at a time of crisis. There should be additional support. . . ."

Although Indonesian Finance Minister Mar'ie Muhammad said in Jakarta on Oct. 31 that it may be two weeks before the final price tag of Indonesia's accord with the IMF is disclosed, early guesses are that the package could be around $30 billion, of which the IMF would contribute $10 billion, the World Bank $4.5 billion, and the Asian Development Bank $3.5 billion. Additional bilateral help is expected from Singapore ($5-10 billion), Malaysia ($1 billion), possibly $4-5 billion from Japan, an undisclosed amount from Australia, China, and Hongkong.

Non-stop meetings ahead

Intersecting discussion of the Asian Monetary Fund is the campaign to put on the agenda of every international forum an action plan to rein in the attacks on national currencies and stock markets by insatiable speculators. Since the July summit of the ASEAN countries, Malaysia's Prime Minister Dr. Mahathir bin Mohamad has been a leading spokesman in this effort, and has taken a lot of flak as a result, but has the support the leading "emerging market" countries in the world. It is fair to say, looking at the schedule of such meetings through the end of 1997, that there exists a clear deployment roster of key heads of state to broaden the base of support for these urgent, global reforms.

On Oct. 29 to Nov. 1, the 6th Conference of Ministers of Endowment and Islamic Affairs of the Organization of the Islamic Conference (OIC) takes place in Jakarta, involving 34 of 56 Islamic countries, followed by the OIC summit in Iran later this year. President Suharto is keynoting the Jakarta meeting. On Nov. 3-5, the heads of state of the G-15 developing nations meet in Kuala Lumpur, Malaysia, with Dr. Mahathir keynoting.

On Nov. 18, deputy finance ministers of Asian nations and the United States meet in Manila to lay the groundwork for the Asian Monetary Fund, on the eve of the Nov. 19-25 Asia-Pacific Economic Cooperation (APEC) conference in Vancouver, Canada, which brings together 18 nations, from Asia and North and South America.

Later in December is the informal heads of state meeting of ASEAN in Kuala Lumpur, with invited guests China, South Korea, and Japan.

Sharks circle Brazil next

The world financial earthquake has hit Brazil especially hard, and a run against the currency, the Real, is now under way.

On Tuesday, Oct. 28, the Brazilian central bank was forced to spend, in a single day, a staggering $7 billion out of its $62 billion in foreign reserves, to slow down a run against the Real and try to forestall a devaluation. After a relatively quiet Wednesday, the raid continued on Thursday, sucking out another $1 billion or so—a total of 13% of the reserves in just three trading days.

On Friday morning, the government *doubled* the prime interest rate, from about 24% to over 42% per year, to try to bribe speculators not to pull their money out of Brazil.

This may or may not convince the speculators, but it will throw the domestic economy into a recessionary spiral. "This is very classic but very aggressive," was the happy view of the chief economist at the Banco Santander in Brazil. "It signals they are ready to defend the Real no matter what the cost."

The economic profile of Brazil today most closely resembles that of Mexico in late 1994, right before the debt bomb exploded. Brazil, like Mexico before it, has developed a world-class derivatives bubble, by financing its gigantic trade deficit (the result of British free-trade policies) with capital inflows from speculators. This has led to a public debt which is officially projected to balloon from $231 billion at the end of 1996, to $356 billion at the end of 1997—a 54% rise in one year.

In a similar situation in late 1994, Mexico spent about $10 billion of its $15 billion in foreign reserves, and jacked up interest rates from 15% to 40%, in a futile effort to defend the peso, which ended up being devalued by over 40% by the speculative assault.

Unlike their Asian counterparts, the governments of Ibero-America are not responding to the crisis by looking for new solutions. Virtually without exception, they continue to blindly follow the insane British policies which got them into the mess in the first place.

Mexican President Ernesto Zedillo, for example, told U.S. and Mexican businessmen on Oct. 30: "The blame is not in the functioning of financial markets, but in the application of erroneous economic policies." Rather than changing course, "we should accelerate other aspects of globalization and economic liberalization, such as the liberalization of international trade and flows of direct investment." The Yale-trained President insisted: "We should not fight to reverse the liberalization of financial markets," a not-so-veiled reference to Malaysian Prime Minister Mahathir and others who have demanded such measures.

Similarly in Argentina, Finance Minister Roque Fernández announced that the government "will do everything in its power to maintain the system," adding ominously, "If it were necessary, [President] Carlos Menem would impose a 15% salary reduction" on the country.

As for Brazil, President Fernando Henrique Cardoso certainly has no intention of breaking from British policies. He is scheduled to visit London in early December, where he will be knighted by the Queen.